All-Party Parliamentary Group for Local Authority Pension Funds
All-Party Parliamentary Group

Co-Chairs	Clive Betts MP
Vice-Chairs	Baroness Altmann, Lord Kerslake and Lord Goddard of Stockport
Secretary	Cllr David Simmons MP

DRAFT MINUTES

APPG Inquiry: 'Responsible Investment for a Just Transition'

Second Evidence Session

Wednesday 17th March

1. AGM

The APPG AGM was held. Clive Betts MP was re-elected APPG chair. The officers were also re-elected.

2. Introductions and welcome – Clive Betts MP, APPG Chair

Clive Betts MP welcomed all attendees and speakers and outlined the context for the APPG's inquiry into 'responsible investment for a just transition'.

3. Presentation from Lord Deben, Chair of the Climate Change Committee

Lord Deben stated that there had been a huge change in the attitude of the financial world over the last year to climate change. Lord Deben stated that he had seen this in the company he has chaired for over 20 years that helps promote sustainability. Lord Deben noted if you are investing in companies, due diligence is needed, stating: "If you want to know how good a company is, you want to know whether they have thought through the risks to the environment."

Lord Deben noted that companies in the past would state "'that it is all very well, but we never get our investors asking about these things…. Now they are getting in touch saying our investors our pushing us… the world has changed very, very significantly… they have become much more central to people making investment decisions." Lord Deben went on to note that, "I don't' think that pension trustees now can do other than recognise that part of their fiduciary duty is to take into account in a very serious way the risks presented by climate change."

Lord Deben noted the pandemic has helped in this. Everyone had pandemics on their risk register and this was the only thing that they did about pandemics. This has proved how fragile arrangements are, particularly in areas like our supply chains. Lord Deben noted that the planned growth out of COVID not only of the United Kingdom but of other countries is similar to the steps needed to take against climate change, and investing in companies that are contributing to our growth out of COVID will mean investing in companies that are taking climate change seriously also.

Lord Deben stated that in the Sixth Climate Change Budget produced by CCC one of the questions "we had to ask was how much is this going to cost?" Lord Deben stated that it is less than expected. The cost is looking like 1% of GNP which is a very conservative figure. He went on to note: "The issue therefore is not about the total cost, most of which will be paid by investment in the private sector, but it is about the just transition. The Climate Change Committee has made this a very central part of what we say… We are not going to do the transition if it isn't just, because society won't accept it."

Lord Deben stated that when Committee looked at the issue of government setting the net zero target that it recommended that the Treasury ought to do a deep dive into how we achieve this transition in a just way. He stated that the Treasury is doing so and the report will be published shortly. He noted "that will give us a basis for knowing how to carry through all these changes so that they don't weigh more heavily on the poorest and that we find ways of ensuring that everybody carries due weight".

Lord Deben then focused on investment challenge. He stated: "When it comes to direct decisions as far as investments are concerned… this transition is not easy and therefore it is important for people making investment decisions to be careful that they don't take a view that makes the transition more difficult." Building on this point he noted that disinvestment as a general rule was not the right approach. "As far as fossil fuels are concerned it is rather important to keep your investments in those companies that are genuinely moving from being fossil fuel companies to providing the energy that we will need from alternative sources that are not damaging to the environment. And one should make a distinction between those companies that are seeking to do that and those not doing so and then using our financial muscle."

Lord Deben remarked that it is very important to recognise that pension funds need to have sustainability at the centre of what they're doing which is now true of nearly every fund. He went on to say: "We used to talk about socially good funds, almost every fund now is taking these issues into account because it is financially necessary. Pension funds need to think very seriously about the long term, they need returns from year-to-year but they have the responsibility of the continuance of the funds as new generations become a part of the funds."

Lord Deben said that the Climate Change Committee will be focusing on action - attempting to get the government to do what it is already said it is going to do. He remarked that that there was an all-party consensus in the UK and finished by stating that: "The real issue is how do we do it effectively and rapidly? This is not just a matter for Government. It is a matter primarily for government setting the circumstances in which private industry can deliver the goods… The role of pensions funds is to be very much aware and to be active… What we need to do is to make sure all pension funds recognise in the pretty short term and certainly in long term our need is to ensure that we get a just transition."

Q&A

It was noted by Cllr David Simmonds MP that current councillors are getting lots of requests for a blanket disinvestment policy. It was therefore asked ,how do we move the debate into a more nuanced place, including around whether companies are greenwashing or whether they are genuinely making positive changes?

Lord Deben stated that it was a judgement. He stated that we are going to continue to need to use gas until 2035 and the idea of getting out of the gas industry when you are asking for its product to move the transition seems to not be honest. He stated that he was not in favour of investing in say, a coal mine, as we would not be using it for any other purpose by 2036. He noted about distinguishing between companies: "Are they investing in the transition or are they investing in the old way, is how to make the distinction between certain energy companies."

Lord Kerslake stated that he shared Lord Deben's view that the landscape has changed dramatically in the last year or so. He stated that as chair the London Collective Investment Vehicle there are those that want the choice of low carbon or sustainable investment products and some that want their investment to go towards companies that are working out how to move things forward towards environmental sustainability. It was therefore asked whether we have a completely compelling way of identifying a green or a brown business, how do we have an objective assessment?

Lord Deben stated that we should be investing in those leading the way, not just those changing their ways. Free enterprise should be about disruption and should be about opening up occupancy for newcomers. Lord Deben stated that the real difficultly in the green economy is that we don't have a good way of helping green start-ups and pension funds cannot be in this area because of the high risk.

It was asked why invest in one oil company over another as no major fossil fuel company is on track to be Paris-aligned by 2050.

Lord Deben stated that Repsol were aligned with Paris. He noted that Shell are in a very different position from where they were two years ago and that none of this was brought about by disinvestment, this was brought about by investment in the right place and pressure from investors.

It was noted that in the presentation it was stated that pension funds must look to the long term. It was then asked, that as this transition is going to involve a hit in investment returns whilst investment in renewables take place, how long these investment returns are going to take a hit for and what the hit will be?

Lord Deben stated that the real downturn will be for those that do not take this issue into account. This is a choice that has to be made, there will a reduction in some of the pay-outs for some people where they have to change their investment strategy to change things radically.

There were three final questions, the first was about the largest barriers facing pension funds on the issue. The second stated that if pension funds needed to be active this would require policy change at a local and national level, and therefore what pension funds' main asks should be of policymakers? The last questions stated that the ILO set out guidelines on the just transition to ensure workers are treated fairly and how will this be acted on in practice and that investors have to have adequate information to judge whether companies will be executing a just transition, and are corporate governance requirements adequate or should there be more explicit requirements for listed companies.

Lord Deben stated that: "the biggest hurdle is the traditional view that there is a conflict between taking sustainability and climate change into account and getting a best return."

Responding to the question on information and the ILO it was stated: "I don't think we have enough information, I do think that when TCFD bites, then we must go on developing this." He stated that we have to move down the size of companies, anyone who receives investment must deal with these issues, and is needed for stewardship purposes. On the ILO the CCC plan is to see what Treasury comes up and decide whether Treasury has gone far enough and look at whether they include ILO. He then stated that he would not take ILO proposals on its word but would need to be scrutinised.

Regrading asks of policymakers Lord Deben stated that "they [pension funds] have to take onboard that they have a real role here, that this is something they have got to be involved with. They can't take a view that they don't have the resources… it essential that they engage with policymakers on this. I would love to hear more from the pension funds as far as the CCC is concerned. I don't think we have had a pension fund come to us and say we are having real difficulties in x, y or z because we do not have the information or we don't know how to apply what it is you've or we would like to do better in this area do you have any recommendations. I have never had that." Lord Deben finished by saying that pension funds needed to engage with policymakers much more widely and that government is not properly affected by the views of pension fund trustees and managers.

4. Presentation by Polly Billington, Director of UK100

Polly Billington gave an overview of UK100, noting that it is a network of UK local elected leaders who have made a commitment to clean energy by 2050. She stated that more than half of its members have since 2015 made a commitment to be net zero on their own assets by 2030 and to achieve net zero across their whole communities by 2045. She stated that "they recognise that they won't be able to achieve this without significant national policy change."

Polly Billignton posed the question "Why do local leaders do this?" She noted that it is the reality of what local authorities have to deal with. "If there is severe flooding, and a bridge goes down in a rural area, who has to pick up the pieces, the local authority. If there is extreme weather events with badly and poorly insulated and poorly maintained homes, in a big built up city, who was going to deal with the consequences for the elderly and vulnerable? it will be the local authority" Local authorities have the leverage to be able to improve things and that is why they work with us to be able to achieve the transition.

Polly Billington stated that when local authority leaders were brought together they stated that finance was crucial to do what they wanted to do in their places, not only with climate adaptation but also mitigation. She went on to comment: "What we realised that was that simply having more public money on its own was not enough. What they wanted to have was access to private finance because they wanted to do things at scale." However, she noted, "The reality is, there are not those projects in a pipeline for the private investor to invest in."

Polly Billington went on to note that the work of the Green Finance Taskforce, which has now become the Green Finance Institute, was established: "specifically to bridge the gap between the amount of in investment capital that is available… and the projects that are available are too small and less investible than we would want them to be.' She went on to state that 'we know this does need some investment from government and does need a strong signal from the market in order to crowd in that capital." She noted that "local authorities are thinking 'we are committed to 2045 for their whole communities and 2030 for their assets that we also have a local government pension fund we should surely be aligning our pension fund with that.'"

Polly Billington went on to note that: "The reality is, local authorities are keen on making sure that we meet the needs of our residents' businesses now, as well as mitigate against potential future disasters such as climate change. So how do we make sure that we are shifting from energy intensive employment, industry, manufacturing businesses and so forth, and the way that we live our lives into something that is cleaner, and less polluting, and more suitable to be climate compliant, while making sure that the burden does not fall unfairly, on those who had really have no other control over what, what would happen."

She went on to note the challenges around just transition for local communities stating: "I think what's interesting is when we talk about divestment, or investment, we talk about the billions that is invested in by Shell – 'well, they can move their money around, pension funds can move their money around'…

but if you are an employee in the steel industry or in a gas turbine and someone decides to pull the plug, all your life is invested in that particular work."

Polly Billington stated that now that government has established a National Infrastructure Bank, the question was what constitutes infrastructure and what constitutes net zero mandate and how do they allocate capital, to crowd in private capital, including from pension funds. She stated that the UK was more attractive because of increased regulatory certainty. She noted about the Infrastructure bank and pension funds that "You also need to the thinking about the just transition element of this – are we going to have those energy intensive jobs changed and how we are going to reskill. I know that this isn't on the radar of many pension funds."

Polly Billington went on to discuss the practical requirements: "What does it mean when investing and partnering with local communities so that when you are doing the investment you are not just thinking about x amount of green stuff but also about the social impact that you might have." She gave an example in Liverpool, which has big off-shore windfarm and yet the city does not directly benefit from energy which goes into the grid and there are also concerns about the number of jobs that were undertaken by the local community when it was being created. Pension funds should be asking companies what they are doing to support a just transition.

Polly Billington ended by saying: "think about making sure there is the expertise and advice available to people on pension committees across the country so that responsible investments can be made properly."

Q&A

Clive Betts asked there are 100 signed up but why not more and also is there a danger that once signed up they think the job is done.

Polly Billington stated they considered whether to have numbers or depth and wanted numbers but then deepen relationships and sharing knowledge about how to meet their climate ambitions and targets.

It was asked about how investment returns were affected by investing responsibly.

Polly Billington stated that over longer term the more responsible the investment was the better the returns were.

In a response to Polly Billington it was noted that it is important to look at investment return and was often hard to get clear information and examples.

It was asked about governance within companies.

Polly Billington stated that it was about governance to drive change but also transparency. It is making sure you are clear about what you are investing and the company's approach on climate change.

It was noted that there was a risk that funds badge themselves as ESG friendly to attract investment and ask whether regulators need to draw a clear distinction to avoid greenwashing.

Polly Billington stated that on we needed to upskill the industry, there was a need for some form of standardisation and that trustees needed to be skilled interrogate and ask the right questions.

A question was asked about the correlation between investment and risk.

Polly Billington stated that there are different strategies for shifting investments and reducing carbon emissions. However, relationships between investment and risk are complex because there are a range of other factors.

It was stated UK Infrastructure Bank has two strategic goals; net zero and supporting regional and local economic growth. It was noted that there is a risk that these are potentially viewed in silo and asked how can they can come in synergy? It was also asked how local authority pension funds can work with local authorities.

It was asked as representatives of local communities, how local authorities could best highlight just transition concerns to investors and pension funds.

Polly Billington noted that the twin goals can work in synergy and gave an example of large parts of the country that have deindustrialised having spare grid capacity which can support green industries. She noted pension funds need to make their voices heard and stated that "Local pension funds need to build public consent and support in a local community for the kind of transformation that is required. Because the people who are benefiting from the pension funding and paying in will want to know it is working in a good way for the local community… People want to know that their money is being invested in a way that is not going to risk their community." Polly Billington stated that local authority pension funds should be asking questions about investing in jobs in future not of the past and putting these questions to their investment managers.

5. Final comments

Clive Betts ended the meeting by thanking the speakers and audience and encouraging people to submit evidence to the inquiry.